

SYNCHRONOUS TERMINAL PRICING PRACTICES

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SYNCHRONOUS TERMINAL PRICING PRACTICES

Prepared For

INTERNATIONAL BUSINESS MACHINES CORPORATION
SYSTEMS COMMUNICATIONS DIVISION

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I INTRODUCTION

I INTRODUCTION

A. STUDY OBJECTIVES

- This report was prepared by INPUT as a custom study for the IBM Systems Communications Division, Harrison, New York.
- It is an amplification of previous work done by INPUT for IBM with respect to the 3270 compatible terminal marketplace.
- The objectives of this study are to:
 - Determine in as much detail as possible the discount pricing schedule of vendors of 3270 compatible terminals.
 - Provide special emphasis on those discount policies that affect terminal controllers and printers.
 - Determine how discounts are applied to the purchase option clause in lease contracts.
 - Determine if systems can be accumulated over a period of time in order to reach higher discount levels.

B. METHODOLOGY

- A questionnaire addressing the objectives was prepared by INPUT and modified by the Systems Communications Division of IBM at a joint meeting in Harrison, New York. The questionnaire is contained in Appendix A.
- Telephone interviews were the sole data gathering method used in this study.
- Branch offices of each vendor were contacted in order to obtain the information.
- All information obtained was checked with a second source within the respondent company.
- In several cases the interviewer was referred to the home office for the information.
- INPUT was identified as a consultant to all vendors.
- IBM was never identified.
- To insure vendor privacy the respondent letter code on the exhibits in Chapters III and IV was repeatedly changed so that no vendor can be tracked from exhibit to exhibit. The exceptions are Exhibits III-3, 4, 5, 6, 7, and 8. In these exhibits the same respondent letter code refers to the same respondent so that pricing information can be consistently tracked.
- Chapter III is a summary of the responses to the questionnaire and an overview of the pricing practices in the 3270 compatible terminal marketplace.
- Chapter IV is a profile of each respondent summarizing the discount pricing policies as stated by the company representatives when interviewed. All interviews were conducted during October, 1979.

- An oral presentation was made to IBM in Harrison, New York on November 9, 1979. For the most part, the exhibits in Chapter III and Chapter IV represent the material presented.

II EXECUTIVE SUMMARY

II EXECUTIVE SUMMARY

A. KEY CONCLUSIONS

- The number of displays ordered usually determines the discount that will be applied to either the displays or to the entire order.
 - Different discounts are sometimes applied to the controllers and printers in the order, but the number of displays determines how deep those separate discounts will be.
- Printer and controller discounts when specified separately are in the 5-20% range, while display discounts will go as high as 40%.
- In general, few firm discount schedules exist. Those that do exist are frequently subverted by the "environment" of the purchase.
- The "environment" or the "market dynamics" surrounding the purchase actually determines the eventual discount the customer receives: "Market Dynamics" includes such factors as:
 - Competitive situation.
 - Vendor's need for the order.

- Geographic distribution of the terminals.
 - Size of the customer.
 - Potential of the account.
 - The profitability of the configuration.
- The purchase option pricing and discounting policies are not fixed. They are bent to fit the particular situation and vendor's needs at the moment.
 - Purchase option credits are usually fixed by the lease contract. However, that too can be altered to fit the parties' needs at the moment.

B. COMPANIES CONTACTED

- The companies listed in Exhibit II-I were designated by IBM and contacted by INPUT.
- AT&T rents its equipment under tariffs and has a policy of not discounting.
- Northern Telecom Systems Corporation was formed by Northern Telecom Limited after acquiring Data 100 Corporation, and Sycor, Inc. Only the Sycor 290 is being marketed as a 3270 compatible system and is the only Northern Telecom system reported on in this study.
- Teletype Corporation was reported on in the previous INPUT study (IBM 3270 Plug Compatible Terminal Systems Pricing Study, August, 1979) and no additional information is available.
- Western Union Data Services Company has been assimilated by the Telegraph Company and is no longer a competitor.

EXHIBIT II-1

COMPANIES CONTACTED

- AT&T
- COMPUTER OPTICS, INC.
- FOUR PHASE SYSTEMS, INC.
- HARRIS CORPORATION - DATA COMMUNICATIONS DIVISION
- HONEYWELL - INCOTERM
- ITT COURIER TERMINAL SYSTEMS
- MEMOREX CORPORATION - COMMUNICATIONS GROUP
- NORTHERN TELECOM SYSTEMS CORPORATION
- RAYTHEON DATA SYSTEMS COMPANY
- TELEX TERMINAL COMMUNICATIONS, INC.
- TRIVEX, INC.
- WORDSTREAM CORPORATION

- Several respondents of each company were contacted. If most of the information was obtained from only one person, that person's title or function is listed in Exhibit II-2.
 - If the information was contributed equally by more than one person, additional titles are listed.
- In general, senior level sales or marketing personnel volunteered the information reported in this study.

EXHIBIT II-2

TITLES OF RESPONDENTS

RESPONDENT	INTERVIEWEES
A	NATIONAL SALES MANAGER
B	HOME OFFICE PRODUCT MARKETING
C	REGIONAL MANAGER
D	CONTROLLER; DIRECTOR, PRODUCT MARKETING
E	NATIONAL ACCOUNT MANAGER
F	REGIONAL MANAGER
G	GROUP MANAGER, PRODUCT MARKETING
H	ACCOUNT MANAGER; DISTRICT MANAGER
I	SALES REPRESENTATIVES
J	SENIOR SALES REPRESENTATIVES
K	SALES REPRESENTATIVE; MANAGER, PRODUCT MARKETING
L	MANAGER, PRODUCT MARKETING

III QUESTIONNAIRE ANALYSIS

III QUESTIONNAIRE ANALYSIS

A. PRICES OBTAINED

- All respondents sold 3270 compatible terminal systems.
- Most respondents do not have a generally available discount schedule, but almost all respondents reported engaging in price cutting in order to obtain orders.
 - Two respondents, as shown in Exhibit III-1, have purchase discount price schedules that are available to their sales representatives openly.
 - No respondent has an openly available lease discount schedule.
- Several respondents admit to having separate discount schedules for subsystem components, such as printer, displays and controllers (Exhibit III-2).
 - More respondents, however, prefer to discount the total system rather than the components.
 - Some vendors will only quote systems discounts, but determine the price by separately discounting the components at different levels.

EXHIBIT III-1

DOES YOUR COMPANY HAVE A GENERALLY AVAILABLE DISCOUNT
SCHEDULE OR POLICY FOR 3270 COMPATIBLE SYSTEMS?

RESPONDENT	PURCHASE		LEASE	
	YES	NO	YES	NO
A		X		X
B		X		X
C		X		X
D		X		X
E		X		X
F		X		X
G		X		X
H	X			X
I		X		X
J	X			X
K		X		X
L		X		X

EXHIBIT III-2

ARE THERE SEPARATE DISCOUNT SCHEDULES FOR
DISPLAYS, PRINTERS, CONTROLLERS AND SYSTEMS?

RESPONDENT	DISPLAYS		PRINTERS		CONTROLLERS		SYSTEMS	
	YES	NO	YES	NO	YES	NO	YES	NO
A		X		X		X		X
B		X		X		X	X	
C	X		X		X		X	
D		X		X		X	X	
E		X		X		X		X
F		X		X		X	X	
G	X		X		X			X
H	X		X			N/A		N/A
I		X		X		X		X
J		X		X		X		X
K		X		X		X		X
L	X			X		X		X

- A vigorous attempt was made to obtain list and discount prices for units with the same characteristics from each vendor.
 - The display specified included a 78 key typewriter keyboard and displayed 1,920 characters.
 - Both controllers had to be expandable to handle 32 devices, but the minimum controller of that type was specified.
 - There is such a wide range of printers available that the respondent was allowed to state the specifications along with the price.
- The respondent letter codes on Exhibit III-3 through Exhibit III-8 refer to the same respondent in each exhibit. This was done to provide tracking of the discounting practices.
- Very few respondents were willing to quote quantity prices on the components or the systems.
 - A few quantity display prices are shown on Exhibit III-3 with the corresponding lease prices on Exhibit III-4. The number of discount prices reported for purchase orders decreases for leasing. Respondents prefer the term discount on leases and use quantity lease discounts only when forced to by the competitive situation.
- No discount prices were quoted by the respondents on controllers or printers. The respondents provided discounts for these components on a systems basis or stipulated a lesser discount than offered on displays.
 - The list purchase prices for controllers and printers that were quoted are shown in Exhibit III-5. Printer specifications are also shown. The price range in the local controller area is very wide and is probably due to the inclusion of a disk system (in the case of Respondent C) or some other devices being packaged together.

EXHIBIT III-3

DISPLAY PURCHASE PRICE OBTAINED FROM VENDORS
(1,920 CHARACTER DISPLAY WITH A 78 KEY TYPEWRITER KEYBOARD)

RESPONDENT	UNIT LIST PRICE	UNIT QUANTITY DISCOUNT PRICES		
		10 UNITS	25 UNITS	100 UNITS
A	\$1,335	NOT GENERALLY AVAILABLE		
B	2,240		\$2,016	\$1,904
C	1,845	\$1,384	\$1,233	\$1,107
D	2,030	DOLLAR VOLUME DISCOUNT ONLY		
E	2,300	ON NET COST BASIS		
F	3,215	NONE QUOTED, BUT AVAILABLE		
G	1,800	N/A	N/A	\$1,656
H	1,850	400-500 UNITS FOR DISCOUNT		
I	2,119	ON TOTAL SYSTEM ONLY		
J		R E N T A L O N L Y		
K	3,200	NOT QUOTED - SEE PROFILE		
L	2,200			\$2,090-1,870

EXHIBIT III-4

DISPLAY LEASE PRICES OBTAINED FROM VENDORS
(1,920 CHARACTER DISPLAY WITH A 78 KEY TYPEWRITER KEYBOARD)

RESPONDENT	MONTHLY UNIT PRICE		MONTHLY QUANTITY DISCOUNT LEASE PRICES						
	ONE YEAR	THREE YEARS	ONE YEAR			THREE YEARS			
			10 UNITS	25 UNITS	100 UNITS	10 UNITS	25 UNITS	100 UNITS	
A	N/A	\$ 44	3 YEAR LEASE ONLY			OFFICIALLY, NO DISCOUNTS			
B	\$ 56	41	GENERALLY, NO QUANTITY DISCOUNTS ON LEASES						
C	N/A	38*	NOT AVAILABLE			\$38*	\$38*	NEGO-TIABLE	
D	61	48	GENERALLY, NO QUANTITY DISCOUNTS ON LEASES						
E			THIRD PARTY OPERATING LEASES ONLY						
F	97	81	AVAILABLE, BUT NOT QUOTED						
G			THIRD PARTY OPERATING LEASES ONLY						
H	67	56	GENERALLY, NO DISCOUNTS ON LEASES						
I	54	42	NO QUANTITY LEASE DISCOUNTS**						
J	82	82	NO QUANTITY LEASE DISCOUNTS						
K	95	75	NEGOTIABLE						
L	86	47	NEGOTIABLE						

* 42 MONTH LEASE ONLY

** LEASE TERM DISCOUNTS - 2 YRS. - 12% LESS THAN 1 YR.

3 YRS. - 5% ADDITIONAL

4 YRS. - 5% ADDITIONAL

5 YRS. - 4% ADDITIONAL

EXHIBIT III-5

CONTROLLER AND PRINTER PURCHASE PRICES
OBTAINED FROM VENDORS

RESPONDENT	BASIC CONTROLLER EXPANDABLE TO HANDLE UP TO 32 DEVICES		PRINTER	
	LOCAL CONTROLLER PRICE	REMOTE CONTROLLER PRICE	SPEED (CPS)	PRICE (132 COLS.)
A	N/A	\$8,515	100	\$ 3,785*
B	\$13,200	9,200	66	\$ 3,840
C	23,940	N/A	30	\$ 3,500
D	13,950	8,600	120	\$ 3,750
E	N/A	N/A	120	\$ 4,240
F	5,390	4,185	165	\$ 6,450
G	7,350	6,000	88	\$ 5,000
H	7,125	6,425	120	\$6,425
I	12,300	5,161	120	\$4,855
J	RENT ONLY	RENT ONLY		RENT ONLY
K	6,800	6,000	200 LPM	\$10,000
L	6,800	3,740	40-70	\$ 5,400

*ONLY 80 COLUMNS

EXHIBIT III-6

CONTROLLER AND PRINTER LEASE PRICES
OBTAINED FROM VENDORS

RESPON- DENT	BASIC CONTROLLER EXPANDABLE TO HANDLE UP TO 32 DEVICES				PRINTER	
	MONTHLY LEASE PRICES					
	LOCAL CONTROLLER		REMOTE CONTROLLER		MONTHLY LEASE PRICES	
	1 YEAR	3 YEARS	1 YEAR	3 YEARS	1 YEAR	3 YEARS
A	N/A	N/A	N/A	\$ 272	N/A	\$ 124
B	\$ 350	\$ 242	\$ 244	171	\$ 102	69
C	235	218	N/A	N/A	90	70
D	418	332	230	177	155	128
E	NOT IN PRODUCT LINE				200**	145**
F	187	157	150	125	225	190
G	250*	200*	225	180	160	135
H	455	385	360	300	360	300
I	295	240	89	69	128	93
J	N/A	N/A	230	230	NOT QUOTED	
K	250	190	220	160	397	330
L	172	150	171	119	N/A	114

* ESTIMATE BASED UPON CONVERSATION AND OTHER PRICES

** GSA SCHEDULE PRICE

EXHIBIT III-7

PURCHASE PRICES FOR ONE AND TEN SUBSYSTEMS
(SUBSYSTEM = 10 DISPLAYS, 1 LOCAL CONTROLLER, AND 3 PRINTERS)

RESPONDENT	SUBSYSTEM UNIT PRICE	SUBSYSTEM QUANTITY TEN PRICE
A	"TOO SMALL TO BOTHER FIGURING -- NO DISCOUNT ON THIS SIZE ORDER."	
B	\$47,120	\$400,552 (+)
C	64,890	505,890
D	43,225	375,375
E	N/A	N/A
F	56,890	VARIABLE
G	40,350	363,150
H	NO INFORMATION GIVEN	
I	48,055	432,495 (+2%)
J	RENT ONLY	RENT ONLY
K	67,300	595,000
L	45,000	5-15%

EXHIBIT III-8

ESTIMATED LIST, LOW, MEDIUM, AND HIGH DISCOUNT PRICES FOR
VARIOUS NUMBERS OF DISPLAYS IN SUBSYSTEMS

RESPON- DENT	DISCOUNT LEVEL	NUMBER OF DISPLAYS**			
		10	24	96	248
A	LIST	\$42,229	\$ 82,649	\$324,144	\$ 838,985
	LOW	35,050	66,120	259,315	671,188
	MEDIUM	33,783	64,466	246,349	620,850
	HIGH	32,940	61,990	239,870	587,300
B	LIST	45,940	101,530	406,120	1,043,360
	LOW	44,350	91,377	345,202	886,856
	MEDIUM	43,640	89,350	337,080	834,690
	HIGH	42,265	86,300	324,900	782,520
C	LIST	52,890	113,160	380,820	985,780
	LOW	44,960	96,186	292,347	723,523
	MEDIUM	44,834	90,725	278,000	686,546
	HIGH	39,670	77,000	258,960	637,500
D	LIST	48,750	97,020	388,080	1,002,540
	LOW	46,313	89,744	320,166	751,905
	MEDIUM	45,094	84,893	310,464	726,842
	HIGH	42,656	80,042	300,762	701,778
E	LIST*	35,720	80,640	322,560	833,200
	LOW	32,150	65,000	251,078	648,552
	MEDIUM	30,484	62,770	235,500	591,575
	HIGH	28,575	60,500	225,800	541,580
F	LIST	57,935	125,295	501,180	1,293,445
	LOW	56,775	119,030	476,120	1,164,100
	MEDIUM	55,040	116,525	451,100	1,099,425
	HIGH	53,880	112,770	426,000	1,034,800
G	LIST	41,225	86,700	292,800	889,175
	LOW	41,225	84,965	278,160	826,900
	MEDIUM	40,400	82,365	263,520	764,700
	HIGH	39,165	80,625	254,736	711,350
H	LIST	47,570	99,660	397,920	1,027,180
	LOW	47,570	99,660	390,000	975,820
	MEDIUM	47,570	97,670	378,000	924,450
	HIGH	45,200	94,680	358,125	873,100

EXHIBIT III-8 (CONT.)

ESTIMATED LIST, LOW, MEDIUM, AND HIGH DISCOUNT PRICES FOR
VARIOUS NUMBERS OF DISPLAYS IN SUBSYSTEMS

RESPON- DENT	DISCOUNT LEVEL	NUMBER OF DISPLAYS**			
		10	24	96	248
I	LIST	\$41,916	\$ 88,147	\$347,427	\$ 898,810
	LOW	41,916	83,740	312,685	808,930
	MEDIUM	40,660	81,535	307,470	786,460
	HIGH	39,820	79,330	302,260	763,990
J	LIST		R E N T A L S O N L Y		
	LOW				
	MEDIUM				
	HIGH				
K	LIST	68,000	142,800	571,200	1,473,600
	LOW	64,600	128,520	499,800	1,259,600
	MEDIUM	61,200	121,380	485,520	1,178,880
	HIGH	57,800	114,240	456,960	1,105,200
L	LIST	42,540	90,500	362,000	934,000
	LOW	42,100	87,860	345,104	852,160
	MEDIUM	41,660	86,275	334,544	824,880
	HIGH	40,780	83,636	319,760	797,600

* NO CONTROLLER OFFERED FOR SALE. ALL PRICES INCLUDE JUST DISPLAYS AND PRINTERS.

** THE CONFIGURATION INCLUDED:

1. THE REQUIRED NUMBER OF DISPLAYS.
2. ONE PRINTER FOR EVERY FOUR DISPLAYS RAISED TO THE NEAREST WHOLE PRINTER.
3. THE REQUIRED NUMBER OF REMOTE CONTROLLERS AND ADAPTERS AS COULD BEST BE DETERMINED FROM THE AVAILABLE INFORMATION.

- The corresponding lease prices are shown in Exhibit III-6. It is interesting to note that Respondent C whose local controller purchase price was the highest, has an average lease price, while Respondent H whose local controller carries an average purchase price, has the highest lease price.
- A ten display subsystem was configured and then extended to ten subsystems in order to obtain some discount prices from those who would not quote on individual units and as a check on those respondents who did quote individually.
 - Respondent I (Exhibit III-7) indicated that an additional 2% is possible on this size order.
 - Respondent B said that this quote was a minimum discount and that special quotes were available.
 - Prices for Respondents G and K were estimated, based upon the policies given by the respondents.
 - Respondent E does not sell subsystems, only displays.
 - Some of the subsystems required more than one controller to handle the prescribed 13 devices. Also, differing numbers of adapters were necessary. It can only be assumed that the respondents made all of these adjustments when quoting the subsystem unit price.
- The subsystem configuration used in computing prices for Exhibit III-8 is not the same as the one used in Exhibit III-7. In Exhibit III-8, a remote controller was used because the configuration rules are simpler and usually different from the local controller subsystem rules.
 - The ten display subsystem prices cannot be compared in the two exhibits.

- The list prices in Exhibit III-8 may not be completely accurate. Published information in addition to information volunteered for this and previous studies was used. In some cases no price information and/or configuration information was available and "reasonable" assumptions were made.
 - The number of displays used fits well with the configuration logic of the controllers except for the initial ten display subsystem.
 - It was also assumed that each controller would carry its maximum number of devices and no geographic dispersion would require more controllers than the minimum.
- Exhibit III-8 represents a rough estimate as to a reasonable range of discount prices that would be offered by each vendor at the indicated display levels.
 - These "best guesses" are based upon published information, information volunteered by the respondents for this study and the August 1979 study on the same subject, the tenor of the conversations held with the respondents, and reasonable business practices.
 - Exhibit III-8 is a pro forma purchase discount price schedule.

B. COMPANY PRICING ATTITUDES

- Since discounting is based upon the market dynamics of each situation and no two customer situations are exactly alike, very few customers obtain the same discount for the same number of displays or total dollar order (Exhibit III-9).

EXHIBIT III-9

DOES EVERYBODY GET THE SAME DISCOUNT
WHEN REACHING THE SAME QUANTITY OR DOLLAR LEVEL?

RESPONDENT	YES	NO	COMMENTS
A	X	X	MARKET DYNAMICS
B			
C		X	DISCOUNTS ONLY ON MAJOR ORDERS
D		X	MARKET DYNAMICS
E		X	MARKET DYNAMICS
F		X	MARKET DYNAMICS
G		X	LOW PROFITABILITY LEVELS
H		X	GENERALLY DO NOT GRANT DISCOUNTS
I		X	COMPETITIVE NEED
J		X	MARKET DYNAMICS
K		X	NO DISCOUNTS
L	X		

- In Exhibit III-10 the indications are that greater discounts are generally available than shown on the "discount schedules" or guidelines. As long as the market dynamics are considered in pricing, the final price will always be a function of the needs of the vendor and buyer and not some rationally determined price schedule.
- Even though discounting is widespread, customers must ask for the discount.
 - Few salespeople will quote their best price at the start unless they know the customer, the account potential, and the competitive situation (Exhibit III-11).
- Most vendors offer discounts on the dollar volume of an order without regard to the specific units in the configuration. This dollar volume discount assumes a reasonable configuration of equipment.
 - The schedule would not apply if the order consisted of only printers and controllers.
 - Only one vendor reported a generally available, well defined dollar volume discount schedule. This vendor also indicated that greater discounts are available in special circumstances.
- Each vendor analyzes his own needs and sets his marketing policies accordingly.
 - There is no trend towards leasing or towards purchasing by the industry. Exhibit III-12 shows that each vendor goes his own way in this regard.
 - Some vendors mentioned that they felt the trend is towards purchase and some felt that the trend is towards leasing.
 - A few vendors expect certain portions of their revenues to come from purchases and purchase conversions.

EXHIBIT III-10

CAN CUSTOMERS GET A DISCOUNT GREATER
THAN THAT ON THE SCHEDULE?

RESPONDENT	YES	NO	COMMENTS
A	X		MARKET DYNAMICS
B	X		IF ORDER IS OVER \$3 MILLION OR COMPETITION REQUIRES IT
C	N/A		NO DISCOUNT UNLESS ORDER IS OVER \$1 MILLION
D		X	UNLESS ORDER EXCEEDS 50 DISPLAYS OR SPECIAL QUOTE NEEDED
E	X		MARKET DYNAMICS
F	X		MAINTENANCE REDUCTION IF WARRANTED
G		X	
H	X		"LOOK AT EVERY DEAL CAREFULLY"
I	X		CAN BE NEGOTIATED
J	NO DISCOUNTS		
K	X		ADDITIONAL 1-3% AVAILABLE - COMPETITIVE NEED
L	X		PROBABLY - POLICY UNDEFINED

EXHIBIT III-11

METHODS OF GRANTING DISCOUNTS

RESPONDENT	ARE DOLLAR VOLUME DISCOUNTS AVAILABLE?		MUST A CUSTOMER ASK FOR A DISCOUNT OR IS IT QUOTED IMMEDIATELY?	
	YES	NO	MUST ASK	QUOTED IMMEDIATELY
A	X		X	
B		X	X	
C	X		X	
D		X		X
E	X		X	
F	X		X	
G	X		X	
H	X*		X	
I		NO DISCOUNTS	NO DISCOUNTS	
J	X		X	
K		X	X	
L	X		X	

* HAS A WELL DEFINED SCHEDULE

EXHIBIT III-12

LEASE VERSUS PURCHASE

RESPONDENT	DOES DISCOUNT VARY BETWEEN LEASE AND PURCHASE		PERCENT OF CUSTOMERS WHO LEASE VERSUS PURCHASE	
	YES	NO	LEASE	PURCHASE
A	X		70%	30%
B		NO DISCOUNTS	100	0
C	X**		80	20
D	X		70	30
E			20	80
F	X**		90	10
G	X**		40	60
H	X		95	5
I	X		75	25
J	X**		20	80
K	X		10	90*
L		X	0	100*

* LEASES ARE WITH THIRD PARTY LEASING COMPANY

** USUALLY NO DISCOUNTS ON LEASE CONTRACTS

C. PURCHASE OPTION ANALYSIS

- Purchase options in lease contracts allow the lessee to deduct from the purchase price some portion of the lease payments already paid to the vendor.
 - The purchase price is usually stated in the lease contract at the time of the signing of the lease, because it is this purchase price that determines lease rates.
 - However, a strong customer with a large configuration of equipment can negotiate the price at which the purchase option is to be exercised.
- In this discounting study the question arises as to whether or not quantity or dollar volume discounts can be applied to the purchase option price.
 - Most respondents indicated that discounts would apply in some way to the purchase option price. Some of the respondents saying that the quantity discounts would not apply, did indicate that this rule is very flexible if necessary, as shown in Exhibit III-13.
 - No respondent indicated how the discount might apply: that is, the algorithm used to determine the final price.
- In general, previously purchased systems will not be included in a current purchase in order to reach a higher discount level.
 - One respondent said no in answer to the question of cumulative discounts, but his GSA Schedule specifically states the opposite.
- Accrual of lease payments varies between respondents depending upon the vendors' marketing strategy or cash flow problems, but are relatively fixed within a vendor's lease contract (Exhibit III-14).

EXHIBIT III-14

PURCHASE OPTION ACCRUAL AND LEASE CONVERSIONS

RESPONDENT	PURCHASE ACCRUALS IN LEASE CONTRACTS (PERCENT)			PERCENT OF LEASE CONVERSIONS	COMMENTS
	FIRST YEAR	SECOND YEAR	MAXIMUM		
A	← N/A →				25-30% TARGETED NEW PURCHASE AND LEASE CONVERSIONS
B	85% (6 MOS.)	50%	65%	20-30%	
C	50	50	50	10	
D	THREE YEAR FIRM LEASE			UNKNOWN	
E	40	40	50	20	
F	50	50 (VAR.)	50 (VAR.)	50	
G	50	50	50	UNKNOWN	
H	50	50	50	20	
I	THIRD PARTY LEASING ONLY				
J	40	50	80	10-15	
K	50	50	50	20	
L	75	50	50	20	
					TARGET 20%

EXHIBIT III-13

DISCOUNTING AND THE PURCHASE OPTION IN LEASE CONTRACTS

RESPONDENT	DO DISCOUNTS APPLY TO PURCHASE OPTION PRICE?*		HOW DOES IT APPLY?	ARE INITIAL SYSTEMS COUNTED FOR DISCOUNTS WITH SUBSEQUENT PURCHASES?	
	YES	NO		YES	NO
A		X	DEPENDS UPON MARKET DYNAMICS		X
B	X		VARIES. DEPENDS UPON PROFITABILITY	X	
C	N/A		RENTS ONLY	N/A	
D		X			X
E	X		VAGUE. DEPENDS UPON NEED	X	
F		X	DEPENDS UPON MARKET DYNAMICS	X	
G		X	VERY LITTLE LEASING		X
H	X		BASED UPON NUMBER OF DISPLAYS		X
I	X		ONLY ON 500 UNITS OR MORE		X
J	X		DEPENDS UPON MARKET DYNAMICS		X
K	X		DEPENDS UPON MARKET DYNAMICS		X
L	N/A		NO LEASING	X	

*OPTION PRICE IS USUALLY PURCHASE PRICE AT TIME LEASE CONTRACT IS SIGNED

- Some vendors indicated that accruals beyond the first year can be negotiated at the time the lease contract is signed.
 - Respondent B's 85% accrual is for the first six months only. The remainder of the first year carries a 50% accrual.
 - Respondent F's second and third year accruals are nominally 50%, but can be negotiated.
- The percent of lease business that is converted to purchase via the purchase option clause is dependent upon individual company policies.

IV RESPONDENT DISCOUNT
POLICY PROFILES

IV RESPONDENT DISCOUNT POLICY PROFILES

A. INTRODUCTION

- Each of the following exhibits is a discounting profile of each respondent. All of the information gathered for each respondent, including discount schedules and attitudes, are reported.
- GSA Schedule information is included as a comparison with telephone interview responses when it is available.
- The exhibits are self-explanatory and require no additional comments. Together, they portray the marketplace as being extremely fluid at this time.
 - One respondent (G) expects his prices to drop by 25% in January 1980.
 - Other respondents will surely react to this if it has a negative effect on their bidding situation.

B. RESPONDENT A

- Prices quoted varied from \$2,700 to \$2,000 on display units irrespective of quantity.

- Would give no estimated percentage discount.
- Printers marginally qualify for discount because of low profitability.
- Do not sell new controllers.
- Conclude that discounts are negotiable on a net cost basis rather than on a percentage basis and are dictated by market dynamics.
- GSA schedule - rental contract (1979 - 1980).
 - Basic discount on purchase conversions:
 - Displays - 20%.
 - Printers - 5%.
 - Quantity discount on purchase conversions:
 - Displays - 11 and over - 25% includes basic discount.
 - Printers - 6 and over - 16% includes basic discount.
 - Prompt payment discount.
 - Rentals, within 30 days - ½%.
 - Purchase conversions, within 30 days - 1%.
 - Government gets title to equipment after 125% of contract purchase price is paid in rent without regard to quantity discounts.
- GSA schedule - purchase contract (1979 - 1980).

- Same as for purchase conversions.
- Exhibit IV-I is the 1979-1980 GSA Schedule Equipment List for Respondent A.

C. RESPONDENT B

- All discounts must be approved by home office.
- Sales personnel can quote discount if desired.
- Sales strategy is towards leasing.
- All discounts are quoted on a systems basis only but can be estimated by individual units.
- Purchase discounts driven by number of displays.

- 10 Displays	25%
- 11 - 20 Displays	32-40%
- Printers and Controllers	10-15%
- Lease discounts on 42 month lease only.

- 10 Systems	4% of monthly lease price
- Over 10 Systems	5% of monthly lease price
- Larger discounts are available and depend upon:
 - Potential of account.

EXHIBIT IV-1

RESPONDENT A

1979 - 1980 GSA SCHEDULE

EQUIPMENT LIST

DESCRIPTION	RENTAL PER MONTH ITEM 132-3				PURCHASE ITEM 132-8	MAINTENANCE PER MONTH ITEM 132-14
	1-12	13-24	25-36	37-48		
DISPLAY STATION	\$ 74.00	\$ 65.00	\$ 61.00	\$57.00	\$2,174.00	\$13.00
66 KEY EBCDIC TYPEWRITER	6.00	5.00	4.00	3.00	326.00	3.00
66 KEY EBCDIC DATA ENTRY	6.00	5.00	4.00	3.00	326.00	3.00
78 KEY EBCDIC TYPEWRITER	14.00	13.00	12.00	11.00	652.00	5.00
AUDIBLE ALARM	2.50	2.00	1.50	1.00	100.00	N/C
KEY LOCK (SECURITY)	70.00 SUC	-	-	-	70.00	N/C
15 KEY ADDER PAD	9.00	8.00	7.00	6.00	233.00	1.00
PRINTER 88 CPS	185.00	150.00	135.00	N/A	3,000.00	40.00
PRINTER 120 CPS	200.00	160.00	145.00	N/A	4,200.00	40.00
PRINTER 165 CPS	215.00	170.00	155.00	N/A	4,500.00	70.00

- Competitive environment.
- Equipment availability.
- ROI.
- GSA Schedule - purchase option in lease contract (1978-1979).
 - Purchase price is the lesser of either the purchase price at time of lease or at time of purchase.
 - Accruals.

• First year	40%
• Second year	50%
• Third year	60%
• Maximum	90%
 - Accruals carry over from one rental period to the next.
- GSA Schedule - rental discounts (1978-1979).
 - Rental rates are subject to a 5% basic discount.
 - Prompt payment discount = 2%.
- GSA Schedule - purchase discounts (1978-1979).
 - Basic discount - 5%.
 - Prompt payment discount, within 20 days - 2%.

- Quantity discounts.
 - . 2 systems 10%
 - . 3-5 systems 16%
 - . 6-9 systems 22%
 - . 10 systems 24%
- "The quantity discount is cumulative by agency. For purposes of determining the discount, any systems ordered subsequent to the original equipment, whether ordered on this contract or a schedule contract some years later, will be included. For example, an agency purchasing 8 systems which are in addition to 2 purchased two years ago, would receive a 24% discount against the 8 systems, because the discount level would be based on the cumulative agency total of 10 systems."

D. RESPONDENT C

- Official Position: no discounts.
- Home office would give serious consideration to discounting:
 - A sizable purchase order involving one million dollars or more.
- Three year firm lease contract - no purchase option.

E. RESPONDENT D

- Discounts are based upon:
 - Competitive factors.
 - Size of account.
 - Backlog of orders.
 - Type of equipment.
 - Market conditions.
- Branch has latitude to freely grant discounts on either purchase or lease.
- Higher discounts require home office approval.
- Will discount any configuration of equipment.
 - Will discount, if necessary, an order for printers alone.
 - Quid pro quo being "what benefits do we as a company derive from this discounted order."
- Sales reps suffer a pro rata reduction in commission, which is the mechanism to control size and scope of discount.
- Discount guidelines exist for sales personnel.
- Trend is away from leasing and towards using the purchase option and/or outright purchase.

- Quantity discounts could be as much as:
 - Displays 22%
 - Remote controllers 14%
 - Local controllers 12%
 - Printers 5%
- Any of the above discounts could be applied to the total number of systems also.

F. RESPONDENT E

- Discounts are display determined:
 - 15 -50 displays 10% discount on entire system
 - 51+ displays 15% discount on entire system
- Higher discounts are available on larger orders or to meet competition.
- Discounts not generally granted on leases.
- Discount schedule applies to the purchase option price.
 - First, subtract applicable discounts on purchase value.
 - Second, subtract lease credits to determine final price.

G. RESPONDENT F

- Discounts for purchase only.
- Discounts on entire system only, but determined by number of displays ordered.
- Discounts start at the 100 terminal level and rarely exceed 5-8%.
- Discounts higher than 5% require home office approval.
- Discounts depend upon:
 - What is necessary to get the business.
 - Competition.
 - Potential future orders.
 - Profitability of component.
 - Uniqueness of customer.
 - Geographical distribution of equipment.
- Sell directly in 15 major cities, and through manufacturer's reps in second and third tier cities.
- Discourage discounts because of low levels of profitability from selling through branch/region.
- Prefer to manipulate maintenance rates and service policies rather than give direct cash discounts.

- Will propose on-site service support if necessary and order is large enough.
- Will propose discount if systems are under one roof or in one metropolitan area.

H. RESPONDENT G

- Special discounts are available on orders of 400 - 500 displays or more.
 - Discount varies between 2-3%.
 - Discount is on entire system.
 - Home office approval is required.
- Prefers to sell 5 year installment purchase contracts with simple interest of 12-14% and pass on the ITC. This results in lower cost to the customer.
- Optional extra features are frequently not billed and are, therefore, an added discount.
- If 400 - 500 displays were involved in the exercise of the purchase option, then discounts would be applied.
- Estimated that new price schedule in effect January 15, 1980 will reduce all component prices an average of 25%.

I. RESPONDENT H

- Discount threshold is over 100 displays, typically.
- Discounts granted on displays only.
- Discounts applicable to both purchase and lease contracts.
- No formal discount schedule adhered to - discounts granted on competitive need and account potential.
- Discounts typically are in the 5-15% range.
- Greater discounts can be negotiated with home office based upon:
 - Size of order.
 - Potential for future business.
 - Profitability.
 - Competitive need.
- Generally will not permit accumulating old and new orders for discount purposes. However, if there is a significant advantage to the company it might be considered.
- Whether or not a discount can be applied to the purchase option price depends upon:
 - Lease credits accumulated.
 - Purchase option price at time of lease order.

- Volume of order.
- Potential future business.
- Seems as if the "potential for future business" - that is, size of the customer, is the prime determinant of the discount granted.

J. RESPONDENT I

- Not willing to discuss typical discounts or say anything specific about the subject.
- Discounts are granted on purchase and lease contracts based upon:
 - Profitability analysis.
 - Size of the order.
 - Future potential.
 - Competitive posture.
- Sales personnel use previous experience as guidelines.
- Discount applied to purchase option in lease contract based upon:
 - Profitability.
 - Need to protect business.

K. RESPONDENT J

- Dollar volume discounts only.
- Discounts only on purchase contracts.

<u>DOLLAR VOLUME</u>	<u>DISCOUNT %</u>
\$ 25K - \$ 75K	5.0%
75K - 150K	7.5
150K - 250K	12.5
250K - 500K	17.5
500K - 750K	20.0
750K - 1.0M	22.5
1.0M - 1.5M	25.0
1.5M - 3.0M	27.5
\$3.0M and over	30.0

- Greater discounts at any dollar level can be negotiated.
- Sales rep can quote discount. Home office approval not required for discounts within schedule.
- Discounts on purchase option price not as fixed, depends upon:
 - Purchase option price.
 - Competitive situation.
- Purchase option accruals beyond first year vary and can be negotiated by customer at lease signing. The variables are:
 - Customer size.

- Order size.
- Indicated intentions concerning future orders.
- Competitive situation.

L. RESPONDENT K

- All equipment rented only.
- No discounts.
- Lease prices vary with interstate and intrastate tariffs.
- Thirty day rental contracts.
- Billable options and installation charges occasionally are not reflected in lease charges to customer.

M. RESPONDENT L

- Quantity discounts on purchase contracts only.
- Discounts on total system price only.
- Up to 10% discount may be granted by the branch at its discretion.
- Additional discounts of up to 3% may be granted by home office for large orders (at least \$250,000 - \$500,000) based upon:

- Competition.
- Market dynamics.
- Company targets 25-35% of forecasted revenues to come from purchase contracts and lease to purchase conversions.
- Discount on purchase option price generally not granted. It depends upon:
 - Profitability.
 - Obsolescence.
 - Current price versus price at time of lease.

APPENDIX A: QUESTIONNAIRE

SYNCHRONOUS TERMINAL PRICING PRACTICES

INPUT is currently studying Pricing Practices in the Synchronous Terminal marketplace. We would appreciate your contributing to our study and we will send you a summary of the results when the study is completed. The information is held confidential and since it is a statistical study no respondent can be identified.

SYNCHRONOUS TERMINAL PRICING PRACTICES

I. Does your company sell 3270 compatible terminal systems?

() YES () NO

IA. If yes, may I please have the model number and unit prices for the following:
(Only a typical display, two controllers and a typical printer).

DESCRIPTION	MODEL NO.	PURCHASE	LEASE (LESS MAINT.)	
			1 YR.	3YR.
<u>1920 Char. Display</u> with 78 key typewriter keyboard				
<u>Basic Local Controller</u> Expandable for 32 Devices				
<u>Basic Remote Controller</u> Expandable for 32 Devices				
<u>Printer</u> Speed Columns Character set				

2. Does your company have a generally available quantity discount schedule or policy for 3270 compatible systems for:

Purchase		Lease	
() YES	() NO	() YES	() NO

2A. If not, how is discounting achieved?

1) Purchase

2) Lease

3. Are there separate quantity discount schedules for:

	<u>YES</u>	<u>NO</u>	<u>COMMENT</u>
Displays			
Printers			
Controllers			
Systems			

INPUT CONFIDENTIAL

3A. If yes, may I please have the discount prices for the models priced in question 1?

	Model No.	Quantity	Purchase	Lease (Less Maint.)	
				1 Yr.	3 Yr.
Display		10,25,100			
Basic Local Controller		5,15			
Basic Remote Controller		10,20			
Printer		10,20			

3B. If not, may I have unit and discount prices on a 10 subsystems each consisting of:

10 - 1920 Character displays with keyboard.

1 - Local controller.

3 - Printers.

SUBSYSTEM UNIT PRICE

QUANTITY
(10 OR OTHER)

DISCOUNT PRICE

4. Does everybody who reaches a certain quantity or dollar level get the same discount?

() YES () NO

4A. If not, why not?

4B. Can customers get a discount greater than that on the schedule?

() YES () NO

4C. If yes, under what conditions?

5. Is there a generally available company discount schedule or policy based upon reaching certain dollar volumes?

() YES () NO

5A. If not, are dollar volume discounts available?

() YES () NO

5B. If yes, may I please have a sample of the schedule?

DOLLAR VOLUME

DISCOUNT

6. Must a customer ask for a discount (quantity or dollar volume) or is it quoted immediately based upon your company's criteria?

☐ MUST ASK ☐ QUOTED IMMEDIATELY

7. Does the discount on displays, controllers and printers vary between leasing and purchasing?

☐ YES ☐ NO

- 7A. About what percent of your customers lease versus purchase?

_____ % lease _____ % purchase

8. If a customer leased 3270 compatible systems and then decided to purchase them would the quantity or dollar volume discount apply to the purchase option price?

☐ YES ☐ NO

- 8A. If yes, how would it apply?

- 8B. If the customer then decided to purchase additional systems would both purchases be considered in determining the discount level?

☐ YES ☐ NO

9. Please describe the purchase option in your lease contract.
- a) 1st year accrual percentage.
 - b) Subsequent years accrual percentage.
 - c) Maximum accrual percentage.
- 9A. What percentage of your lease customers exercise the option?
10. May I please have copies of your price lists and other schedules that we have been discussing?
- () YES () NO

THANK YOU FOR YOUR ASSISTANCE

